

**MINUTES
REGULAR MEETING
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**Friday, August 15, 2008
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Michael Townsend, Chair of the ASRS Board, called the meeting to order at 8:32 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Michael Townsend, Chair (via teleconference)
Mr. Dave Byers, Vice Chair
Mr. Tom Connelly
Mr. Chris Harris
Mr. Jim McLaughlin (via teleconference)
Dr. Keith Meredith
Mr. Larry Trachtenberg
Mr. Steve Zeman

Absent: Mr. Jaime Gutierrez

A quorum was present for the purpose of conducting business.

Mr. Dave Byers stated that Mr. Michael Townsend had asked him to chair the meeting since Mr. Townsend was participating by teleconference.

2. Presentation, Discussion and Appropriate Action Regarding the PRIDE Award for Improvement

Mr. Paul Matson, Director, recognized the Member Services Advisory Center (MSAC) as the winners of the PRIDE Award for Improvement. Several MSAC representatives were formally recognized by the Board and staff.

Mr. Larry Trachtenberg joined the meeting at 8:35 a.m.

3. Approval of the Minutes of the July 18, 2008 Regular Session of the ASRS Board

Motion: Mr. Steve Zeman moved to approve the minutes of the July 18, 2008, Regular Session of the ASRS Board.

Mr. Chris Harris seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, and 2 excused, the motion was approved.

4. Presentation, Discussion and Appropriate Action Regarding the Fiscal Year 2010/2011 Budget Request

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, and Ms. Martha Rozen, Chief Administrative Officer, addressed the Board regarding the fiscal year 2010/2011 budget request. Mr. Guarino gave a brief summary of the budget request, noting the modest increase requested. Ms. Rozen provided an overview of changes or new requests to the current budget request.

Mr. Jim McLaughlin joined the meeting at 8:42 a.m. telephonically.

Motion: Dr. Keith Meredith moved to approve a budget request of \$24,334,450 for FY 10 (an increase of approximately 1.2% over the FY 09 estimated appropriations);

And;

Approve a budget request of \$24,285,490 for FY 11 (an increase of approximately 1.0% over the FY 09 estimated appropriations).

Mr. Steve Zeman seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

5. Presentation, Discussion and Appropriate Action Regarding the Investment Universe Performance Analysis

Mr. Gary Dokes, Chief Investment Officer, Ms. Sarah Wadsworth, Senior Portfolio Analyst and Mr. Terry Dennison, Worldwide Partner, Mercer, addressed the Board regarding the Investment Universe Performance Analysis Report.

Mr. Dokes stated that it has been previously noted that the ASRS now ranks below the median in universe comparisons for most recent periods. To better understand the ASRS ranking, an in-depth analysis of the Russell/Mellon Trust Public Funds Greater than \$1 Billion Universe and its participants was conducted.

Mr. Dokes stated that the ASRS has historically viewed fund universe comparisons as instructive but has been cautious to use them as a policy decision-making tool as other funds may have different objectives and because these comparisons are backward-looking rather than forward-looking. The three major reasons for underperformance (historically) are the ASRS lacking exposure to Real Estate and Private Equity and the limitation to international investments.

The ASRS remains committed to tactically funding the opportunistic asset class, and cautiously building out its Real Estate and Private Equity programs. In addition, there are current and future initiatives we anticipate will improve investment performance.

6. Presentation, Discussion and Appropriate Action Regarding ASRS Investment Performance for Period Ending June 30, 2008

Mr. Terry Dennison addressed the Board regarding the ASRS Investment Performance for Period Ending June 30, 2008, highlighting specific areas of interest and concern.

Mr. Dennison reported on the Total Fund Performance for the period ending June 30, 2008.

	Quarter	1 Year	3 Years	5 Years	10 Years	Inception
Total Fund	-1.0%	-7.6%	6.1%	8.8%	5.5%	10.4%
Benchmark*	-0.9%	-5.6%	6.8%	8.7%	4.8%	10.3%
Excess Return	-0.1%	-2.0%	-0.7%	0.1%	0.7%	0.1%

* Interim Benchmark (current): 38% S&P 500, 7% S&P 400, 7% S&P 600, 27% LB Aggregate, 19% MSCI ACWI ex US, and 2% NPI+100 bps. Note: Interim Benchmark incorporates a proration of 4% real estate and 5% private equity.

Policy History:

- 7/1/75-12/31/79 – 40% S&P 500/60% LB Aggregate
- 1/1/80-12/31/83 – 50% S&P 500/50% LB Aggregate
- 1/1/84-12/31/91 – 60% S&P 500/40% LB Aggregate
- 1/1/92-12/31/94 – 50% S&P 500/40% LB Aggregate/10% EAFE
- 1/1/95-6/30/97 – 45% S&P 500/40% LB Aggregate/15% EAFE
- 7/1/97-12/31/99 – 50% S&P 500/35% LB Aggregate/15% EAFE
- 1/1/00-9/30/03 – 53% S&P 500/30% LB Aggregate/17% EAFE
- 10/1/03-12/31/06 – 53% S&P 500/26% LB Aggregate/15% MSCI EAFE/ACWI ex. US(1)/6% NCREIF+100 bps.
- 1/1/07 – present – 31% S&P 500/7% S&P 400/7% S&P 600/26% LB Aggregate/18% MSCI ACWI ex US/6% NPI+100 bps/5% Russell 3000+300 bps

(1) MSCI EAFE/ACWI ex. US Benchmark is the MSCI EAFE prior to 10/1/05 and the MSCI ACW ex. US thereafter.

7. Presentation, Discussion and Appropriate Action Regarding the ASRS U.S. Fixed Income Managers' Review

Mr. Gary Dokes, Chief Investment Officer, Mr. Brian Luedke, Fixed Income Portfolio Manager, and Mr. Terry Dennison, addressed the Board regarding the ASRS U.S. Fixed Income Managers' Review. As of June 30, 2008, the market value of the ASRS fixed income manager(s) assets was \$6.1 billion and represented approximately 24% of the ASRS' total assets. Fixed income assets are currently managed in six portfolios: four Active portfolios and two Passive/Enhanced Passive portfolios.

Approximately two-thirds of fixed income assets are managed passively (ex. Global Tactical Asset Allocation (GTAA)). In summary, the ASRS fixed income asset class has historically achieved net investment returns equal to or greater than those of the Lehman Brothers Aggregate Index.

8. Director's Report

Mr. Paul Matson congratulated Mr. Chris Harris and Mr. Steve Zeman, for being re-confirmed to the ASRS Board for another three-year term.

Mr. Anthony Guarino gave a brief overview of the Operations Report, noting that a few new reports appear this month. Mr. Guarino also gave an update regarding the hiring freeze.

9. Possible Presentation Regarding Board Committee Updates

Mr. Steve Zeman, Vice Chair, External Affairs Committee (EAC), stated that the next EAC meeting will be October 3, 2008.

Mr. Larry Trachtenberg, Chair, Investment Committee (IC), had nothing to report.

Mr. Dave Byers, Chair, Operations Committee (OC), stated that there would be an OC meeting in August.

10. Board Requests for Agenda Items

There were no requests for agenda items.

11. Call to the Public

There were no requests to speak

12. The next ASRS Regular Board meeting is scheduled for Friday, September 19, 2008, at 1:00 p.m., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

13. Adjournment of the ASRS Board

Mr. Byers adjourned the August 15, 2008 Board meeting at 10:51 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Anne Schrode, Secretary

Date

Paul Matson, Director

Date